

**CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)**

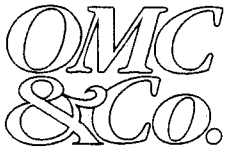
**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2004**

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	I - II
MANAGEMENT'S DISCUSSION AND ANALYSIS	II - VI
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
BALANCE SHEET - GOVERNMENTAL FUND	3
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGETARY COMPARISON - GOVERNMENTAL FUND	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TYPE TO THE STATEMENT OF ACTIVITIES	6
NOTES TO FINANCIAL STATEMENTS	7 - 12
OTHER REPORTS	
GAO GOVERNMENT AUDITING STANDARDS REPORT	13 - 14
COMMUNICATION TO AUDIT COMMITTEE	15 - 16



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## INDEPENDENT AUDITOR'S REPORT

To the Tax Increment Financing  
Authority Board  
City of Litchfield, Michigan  
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activity and fund information of the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, as of June 30, 2004, and for the year then ended. The component unit financial statements are the responsibility of the Tax Increment Financing Authority (TIFA) management, a component unit of City of Litchfield, Michigan. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and fund information of the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The Management's Discussion and Analysis and budgetary comparison information on pages III through VI are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated, August 27, 2004, on our consideration of the Tax Increment Financing Authority's (TIFA), a component unit of City of Litchfield, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

*Astbourne, March, Condon + Co., P.C.*

Certified Public Accountants

Hillsdale, Michigan  
August 27, 2004

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

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Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Litchfield, Michigan Tax Increment Finance Authority (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements.

**Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2004:

- The financial report for the year ended June 30, 2004 reflects complete implementation of Governmental Accounting Standards Board Statement Number 34, which significantly changed the content and format of municipal financial reporting. Accordingly, these statements present both entity-wide financial reporting for all governmental and business activities in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balance to the change in net assets is provided on page 6.
- Property taxes are the Authority's single, largest source of revenue. The Authority captured approximately \$20,677,000 of the City's total taxable value for fiscal year ending June 30, 2004, which represents an increase of \$2,157,000 or 10.4 percent. Additionally, the Authority captured approximately \$7,424,000 of other local units of government's total taxable value for fiscal year ending June 30, 2004 as well, which represents an increase of \$1,093,000 or 14.7 percent. These increases were significantly higher than the rate of inflation primarily due to the fact that Industrial Facility Taxes expired during the year resulting in property being subject to advalorem tax rates.
- The Authority contributed to the City of Litchfield, Michigan \$73,000 more than it did in the previous year. The additional monies were contributed towards fire services and capital outlays.
- The Authority adjusted its investment in land in the amount of \$93,750 or 50% in response to the perceived change in market value.

**Using the Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about activities for which the Authority acts solely as a trustee or agent for the benefit of those outside of the government.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis

The Authority as a Whole

The following table shows, in a condensed format, the net assets as of the current year ended June 30, 2004 compared to the prior year:

	Governmental Activities	
	2004	2003
Assets		
Current assets	\$ 2,634,832	\$ 2,337,779
Noncurrent assets	533,300	506,000
Total Assets	<u>\$3,168,132</u>	<u>\$2,843,779</u>
Net assets:		
Invested in capital -		
Net of related debt	\$ 312,200	\$ 318,500
Unrestricted	<u>2,855,932</u>	<u>2,525,279</u>
Total Net Assets	<u>\$ 3,168,132</u>	<u>\$ 2,843,779</u>

The Authority's combined net assets increased by approximately 10 percent from a year ago – increasing from \$2.8 million to \$3.1 million.

The increase in unrestricted net assets of approximately \$330,000 was a planned increase which is intended for future development in the City of Litchfield, Michigan industrial park and housing projects.

The following table shows the changes of the net assets during the current year in comparison to prior year:

	Governmental Activities	
	2004	2003
Revenue		
General revenue:		
Property taxes	\$ 742,239	\$ 746,415
Interest	32,767	35,043
Rental income	16,500	18,300
Other		13,590
Total Revenue	<u>\$ 791,506</u>	<u>\$ 813,348</u>
Program Expenses		
Development	\$ 194,097	\$ 195,476
Contributions to primary government	243,000	170,000
Depreciation	6,300	6,300
Other	23,756	20,265
Total Program Expenses	<u>\$ 467,153</u>	<u>\$ 392,041</u>
Change in Net Assets	<u>\$ 324,353</u>	<u>\$ 421,307</u>

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

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Management's Discussion and Analysis

**Governmental Activities**

In fiscal year 2004, decreases experienced in property taxes resulted from expiring Industrial Facility Taxes. There has been no change in local units operating millage rates that the Authority captures.

As expected, expenses remained at a consistent level. In 2004 and 2003 the Authority continued carrying out various development projects through out the City of Litchfield. The Authority continues to build up its equity for future plans of further development of the industrial park and housing projects for anticipated community growth.

**Operating Highlights**

The Authority accounts for all development costs it incurs. The budget in recent years has been developed to continue carrying out a variety of development projects. The Budget is developed based on those planned development costs. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

**Capital Asset and Debt Administration**

At the end of fiscal year 2004, the City had approximately \$312,200 (net of depreciation) invested in land and a building that it leases to a local manufacturing business. There is no related infrastructure reported in the year end net capital investment. Any infrastructure developed would be capitalized and depreciated by the City of Litchfield, Michigan.

At June 30, 2004 the Authority did not carry on its financial books any outstanding debt obligations.

**Economic Factors and Next Year's Budgets and Rates**

It is anticipated that property tax revenue collected and reported in the following fiscal year will remain consistent with current year with the exception of a possible increase equal to the rate of inflation.

During the year the Authority provided financial assistance to several local industrial corporations for expansion of their facilities. Approximately 90% plus of current year expenditures supported these local corporations. The focus of expended funds was not directed to newly developed infrastructure during the current fiscal year.

The Authority was established in 1984 with an expiration date set at December 31, 2004. The purpose of establishing the Authority was to promote growth within a defined district, the TIFA District. The Authority carries out its purpose by capturing tax revenue from the City of Litchfield. In light of the approaching expiration date the City of Litchfield, Michigan Council has expressed an interest in extending TIFA operations and has requested the TIFA Board present to City Council a proposed plan for future development. As of the date of the auditor's opinion on the basic financial statements TIFA has not completed its development of the proposed plan and has not made any presentations to City of Litchfield, Michigan Council.

There were no significant variances between budget and actual results.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

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Management's Discussion and Analysis

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements of the City of Litchfield, Michigan, we welcome you to contact the City of Litchfield's Administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.



CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Current Assets:	
Cash	\$ 2,584,756
Accounts receivable	1,910
Due from other governments	<u>48,166</u>
Total Current Assets	<u>\$ 2,634,832</u>
Noncurrent Assets	
Investment in land	\$ 127,350
Capital assets	350,000
Less: accumulated depreciation	<u>(37,800)</u>
Total Noncurrent Assets	<u>\$ 439,550</u>
TOTAL ASSETS	<u>\$ 3,074,382</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 312,200
Unrestricted	<u>2,762,182</u>
TOTAL NET ASSETS	<u>\$ 3,074,382</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>
GOVERNMENTAL ACTIVITY EXPENSES	
Development	\$ (194,097)
Contributions to primary government	(243,000)
Depreciation	(6,300)
Loss on investment in land	(93,750)
Other	<u>(23,756)</u>
TOTAL GOVERNMENTAL ACTIVITY EXPENSES	<u>\$ (560,903)</u>
General Revenues:	
Property taxes , captured for operations	\$ 742,239
Interest	32,767
Rental income	<u>16,500</u>
TOTAL GENERAL REVENUES	<u>\$ 791,506</u>
CHANGE IN NET ASSETS	\$ 230,603
NET ASSETS - BEGINNING (RESTATED)	<u>2,843,779</u>
NET ASSETS - ENDING	<u><u>\$ 3,074,382</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2004

ASSETS	
Cash	\$ 2,584,756
Accounts receivable	1,910
Due from other governmental units	<u>48,166</u>
TOTAL ASSETS	<u>\$ 2,634,832</u>
FUND BALANCES	
Unreserved, undesignated	<u>\$ 2,634,832</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY (TIFA)

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2004

GOVERNMENTAL FUND BALANCE \$ 2,634,832

Amounts reported for governmental activities in the statement of net assets are  
different because:

Capital assets used in governmental activities are not financial resources, and  
are not reported in the funds.

The cost of the capital assets is	350,000	
Accumulated depreciation is	<u>(37,800)</u>	
		312,200

Investments in land is not a current financial resource and is not reported in the funds	<u>127,350</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,074,382

See accompanying notes to the basic financial statements.

## CITY OF LITCHFIELD, MICHIGAN

## TAX INCREMENT FINANCING AUTHORITY (TIFA)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGETARY COMPARISON - GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Property taxes	\$ 744,915	\$ 742,559	\$ 742,239	\$ (320)
Interest	20,285	25,000	32,767	7,767
Rental income	18,300	18,300	16,500	(1,800)
Other	10,000	5,000		(5,000)
TOTAL REVENUES	\$ 793,500	\$ 790,859	\$ 791,506	\$ 647
EXPENDITURES				
Development	\$ 1,329,000	\$ 253,814	\$ 227,697	\$ 26,117
Contributions to primary government	185,000	238,000	243,000	(5,000)
Other	29,500	29,500	23,756	5,744
TOTAL EXPENDITURES	\$ 1,543,500	\$ 521,314	\$ 494,453	\$ 26,861
NET CHANGE IN FUND BALANCE	\$ (750,000)	\$ 269,545	\$ 297,053	\$ 27,508
FUND BALANCES - BEGINNING	2,337,779	2,337,779	2,337,779	
FUND BALANCES - ENDING	\$ 1,587,779	\$ 2,607,324	\$ 2,634,832	\$ 27,508

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY (TIFA)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUND TYPE  
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUND TYPES	\$ 297,053
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental Funds report capital outlays as expenditures, and in the  
Statement of Activities these costs are allocated over their estimated  
useful lives as depreciation.

Depreciation expense	\$ (6,300)	
Capital outlay	<u>33,600</u>	27,300
Loss on investment in land is not recorded in the Fund Financial Statement but is recorded in the Statement of Activities		(93,750)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 230,603</u></u>
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See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tax Increment Financing Authority (TIFA) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

COMPONENT UNIT

The Tax Increment Financing Authority (TIFA) (the "Authority") is organized and incorporated as authorized by and pursuant to the Tax Increment Finance Authority Act, P.A. 450 of 1981, as amended. The Authority is a component unit of the City of Litchfield, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Litchfield, Michigan.

FINANCIAL REPORTING

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the Authority's financial statements include:
  - ♦ A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
  - ♦ Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statement of revenues, expenditures and change in fund balance – budgetary comparison – governmental fund type to present original adopted and amended budget information.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Authority. Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue. Note: during the year, the Authority did not receive any charges for services or operating grants.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives the cash.

BUDGETS AND BUDGETARY ACCOUNTING

The Authority's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The Authority's Board submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by City Council. The budget is adopted at the fund level.



CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2004.

PROPERTY TAX

The City of Litchfield, the primary government, bills and collects property taxes and distributes them to the Authority. Properties are assessed as of December 1, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 31 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the City by June 30. Subsequently, the City remits to the Authority the portion of delinquent real property taxes due to it. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

CAPITAL ASSETS

Capital assets, which include land and buildings, are reported in the government wide financial statements. The Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend an assets life are not capitalized but rather expensed in the period incurred.

Buildings are depreciated using the straight-line method over a fifty year period.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions. The Authority is covered under the City of Litchfield's commercial insurance as a coinsurer for general liability for the aforementioned risks.

There have been no reported claims to the commercial insurance with respect to the Authority in any of the past three years. Additionally, there were no reductions in coverages obtained through the City of Litchfield's commercial insurance during the past year.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 2: CASH

At June 30, 2004, the book value of the Authority's demand and time deposits, consisting primarily of checking and savings accounts and certificates of deposits, was \$2,584,756 with a corresponding bank balance of \$2,584,881. Qualifying demand and time deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000 for each deposit type per bank. Of the bank's balance, approximately \$1,108,036 is insured and the remaining \$1,476,845 is uninsured and uncollateralized.

STATUTORY AUTHORITY

Act 217, PA 1982, authorizes the Authority to deposit and invest in:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments, which are legal for direct investments by local units of government in Michigan

The Authority's investments are in accordance with statutory authority at June 30, 2004.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

NOTE 3: CHANGES IN FIXED ASSETS

A summary of capital assets of the Authority activities was as follows:

	<u>BALANCE</u> <u>7/01/03</u>	<u>ADDITIONS</u>	<u>DISPOSALS &amp;</u> <u>ADJUSTMENTS</u>	<u>BALANCE</u> <u>6/30/04</u>
Assets not being depreciated:				
Land	\$ 35,000	\$	\$	\$ 35,000
Capital assets being depreciated:				
Building	<u>315,000</u>	<u>          </u>	<u>          </u>	<u>315,000</u>
	<u>\$ 350,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 350,000</u>
Accumulated depreciation:				
Building	<u>\$ 31,500</u>	<u>\$ 6,300</u>	<u>\$</u>	<u>\$ 37,800</u>
Net capital assets	<u>\$ 318,500</u>	<u>\$ 6,300</u>	<u>\$</u>	<u>\$ 312,200</u>

NOTE 4: LEASES

The Authority leases property it owns to various organizations in the community. The terms of the leases vary and are renewable annually. At year ended June 30, 2004, the Authority recognized lease revenue in the amount of \$16,500.

NOTE 5: INVESTMENT IN LAND

Investment in land represents land developed by the Authority for residential housing. Upon completion of developing the land, the lots were recorded at their fair market value. During the year, the Authority's Board of Directors agreed to discount the lots by 50% in response to the perceived change in the market value. As a result, a loss on investment in land in the amount of \$93,750 is reported in the statement of activities at June 30, 2004.

CITY OF LITCHFIELD, MICHIGAN  
TAX INCREMENT FINANCING AUTHORITY (TIFA)  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2004

NOTE 6: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2004 the Authority implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s discussion and analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s discussion and analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*
- No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

Interpretations

- No. 6 – *Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending prior to June 15, 2005. The City is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

As a result of implementing these pronouncements for the year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

Fund Balance – General Operating	\$2,337,779
Additions:	
Governmental capital assets, including land and buildings as of July 1, 2003	537,500
Subtractions:	
Accumulated depreciation as of July 1, 2003 on the above capital assets	<u>(31,500)</u>
Governmental net assets, restated at July 1, 2003	<u>\$2,843,779</u>

OTHER REPORTS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Tax Increment Financing Authority Board  
City of Litchfield, Michigan  
Litchfield, Michigan

We have audited the financial statements of the governmental activity and fund information of the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Tax Increment Financing Authority (TIFA), Michigan's basic financial statements and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Tax Increment Financing Authority (TIFA) Board, City Council, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

*Osbourne, March, Condon + Co., P.C.*

Certified Public Accountants

Hillsdale, Michigan  
August 27, 2004



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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Hillsdale, Michigan 49242

Telephone: 517/439-9331

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August 27, 2004

To the Tax Increment Financing Authority Board  
City of Litchfield, Michigan, TIFA  
Litchfield, Michigan 49252

We have audited the financial statements of the City of Litchfield, Michigan Tax Increment Financing Authority Board (TIFA) for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by TIFA are described in Note 1 to the financial statements. We noted no transactions entered into by TIFA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

2. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Budget information is the only estimate noted during our audit.

3. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on TIFA's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the TIFA, either individually or in the aggregate, indicate matters that could have a significant effect on the TIFA's financial reporting process.



4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the TIFA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

6. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the TIFA auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the TIFA. It is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Osbourne, March, Condon + Co., P.C.*

Certified Public Accountants